

**THE OFFICE OF REGULATORY STAFF  
SURREBUTTAL TESTIMONY AND  
EXHIBIT**

**OF**

**WILLIE J. MORGAN, P.E.**

**JANUARY 3, 2013**



**DOCKET NO. 2012-177-WS**

**Application of Tega Cay Water Service,  
Incorporated for Adjustment of Rates  
and Charges and Modifications of  
Certain Terms and Conditions for the  
Provision of Water and Sewer Service**

**SURREBUTTAL TESTIMONY AND EXHIBIT OF WILLIE J. MORGAN, P.E.**

**FOR**

**THE OFFICE OF REGULATORY STAFF**

**DOCKET NO. 2012-177-WS**

**IN RE: APPLICATION OF TEGA CAY WATER SERVICE, INCORPORATED**

**FOR ADJUSTMENT OF RATES AND CHARGES AND MODIFICATIONS OF**

**CERTAIN TERMS AND CONDITIONS FOR THE PROVISION OF WATER**

**AND SEWER SERVICE**

10    **Q.    PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND**  
11       **OCCUPATION.**

12     A.           My name is Willie J. Morgan, and my business address is 1401 Main  
13               Street, Suite 900, Columbia, South Carolina 29201. I am employed by the South  
14               Carolina Office of Regulatory Staff (“ORS”) as the Program Manager for the  
15               Water and Wastewater Department.

16     **Q.     WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN**  
17     **THIS PROCEEDING?**

18       A.               The purpose of my surrebuttal testimony in this proceeding is to respond  
19               to specific portions of rebuttal testimony provided by Mr. Patrick Flynn, Ms.  
20               Kirsten Markwell, and Ms. Karen Sasic for Tega Cay Water Service, Inc. (“Tega  
21               Cay” or “the Company”). I will focus on the rebuttal testimony related to Tega  
22               Cay’s proposed Leak Mitigation Program, ORS’s classification of project

1 expenditures as capitalized or expensed, ORS cost exclusions for certain projects,  
2 and asset retirement documentation, the ORS adjustment for purchased water and  
3 the Tega Cay's bill form.

4 **Q. WHAT IS YOUR RESPONSE TO MR. FLYNN'S REBUTTAL**  
5 **TESTIMONY RELATED TO THE LEAK MITIGATION PROGRAM**  
6 **PROPOSED BY TEGA CAY WATER SERVICE, INC.?**

7 A. The information provided in Mr. Flynn's rebuttal testimony is inconsistent  
8 with the application filed by the Company. The application characterized the  
9 Leak Mitigation Program cost as a continuous charge to its customers totaling  
10 \$28,000 per year. The application lists the Leak Mitigation Program in the  
11 "General Expense" category of the operating expenses for Tega Cay (Tega Cay  
12 Application, Schedule B). The expense of the Leak Mitigation Program is not  
13 known and measurable and ORS made no adjustment to include this pro forma  
14 expense in net operating income for return.

15 The original application did not provide a specific rate structure, program  
16 administration details or terms and conditions. Mr. Flynn offers in his rebuttal  
17 testimony no historical data specific to Tega Cay customers who have  
18 experienced an unexpected high water bill due to a leak on their property. ORS  
19 has received no requests for such relief from Tega Cay customers in the most  
20 recent 12 months. Because the Leak Mitigation Program as proposed by Tega  
21 Cay is not based on known and measurable statistics or actual costs, ORS

1 recommends the Commission deny the Company's request to fund the Leak  
2 Mitigation Program.

3 Through rebuttal testimony, Mr. Flynn reduces the amount of the Leak  
4 Mitigation Program expense to \$10,000 from the original \$28,000 proposed in the  
5 application; however, Tega Cay did not propose to reduce the expense in its  
6 exhibits. The Leak Mitigation Program proposed by Tega Cay lacks purpose and  
7 detail.

8 **Q. WHY DOES THE COMMISSION REQUIRE TEGA CAY TO PROPERLY**  
9 **DOCUMENT RETIREMENTS AND REPLACEMENT OF ASSETS**  
10 **ASSOCIATED WITH SERVICE PROVISION?**

11 A. Tega Cay is a regulated water and wastewater utility that has been  
12 depreciating most of its plant assets over a 67 year period. Contrary to Mr.  
13 Flynn's rebuttal testimony on page 4, lines 9 and 10, the failure of Tega Cay to  
14 properly retire assets in its books and records does have an impact on accurately  
15 determining Tega Cay's rate base. According to NARUC's Uniform System of  
16 Accounts, utilities should properly record assets and the disposition of those  
17 assets including their retirement. Without properly recording retirements, Tega  
18 Cay cannot accurately determine the accumulated depreciation of its utility assets.  
19 This information is used to compute rate base.

20 ORS requested the complete retirement records of Tega Cay in its First  
21 Audit Information Request. Tega Cay did not provide completed Retirement  
22 Forms (Exhibit PCF-5) to document asset retirements for any time period. In

1 addition, Tega Cay did not provide documentation to ORS to demonstrate plant  
2 retirements made in 2009. See retirements in Mr. Flynn's rebuttal testimony  
3 Exhibit PCF 6, line 7.

4 **Q. EXPLAIN ORS'S ADJUSTMENTS TO RECLASSIFY EXPENDITURES**  
5 **RECORDED BY TEGA CAY AS CAPITALIZED PLANT TO**  
6 **OPERATING AND MAINTENANCE EXPENSES.**

7 A. ORS agrees with Tega Cay Witness Patrick Flynn's rebuttal testimony that  
8 if Tega Cay "...replaces an existing capital asset, installs or constructs a new  
9 asset, or extends the service life of an existing asset, then the expenditures  
10 associated with those actions..."<sup>1</sup> should be capitalized. Further, ORS agrees that,  
11 "...expenditures associated with the day to day operation of the utility..."<sup>2</sup> should  
12 be expensed. However, ORS reviewed the Tega Cay invoices related to capital  
13 projects and determined, based on the description of the work and service location  
14 identified on the invoice, that Tega Cay incorrectly classified expenditures  
15 totaling \$177,705 as capitalized projects that were routine work associated with  
16 operations and maintenance. As a result, ORS reclassified those expenditures  
17 from capitalized projects to operating and maintenance expenses. For example,  
18 the reclassified expenditures include: repairs to water mains, repair/replacement  
19 of asphalt/concrete/landscaping, labor and supplies to raise meter boxes, cleaning  
20 of pumps used at sewer lift stations, and other routine activities associated with  
21 daily operations of a water and wastewater utility. The invoices for the

---

<sup>1</sup> 2012-177-WS Rebuttal Testimony Mr. Patrick Flynn, page 4 lines 18-20.

<sup>2</sup> 2012-177-WS Rebuttal Testimony Mr. Patrick Flynn, page 4 lines 20-22 and page 5 line 1.

1 expenditures ORS reclassified from capitalized projects to operation and  
2 maintenance expense are attached as Surrebuttal Exhibit WJM-1, pages 1 through  
3 361.

4 **Q. DO YOU AGREE WITH MR. FLYNN'S REBUTTAL TESTIMONY**  
5 **(PAGE 7, LINES 7 THROUGH 11) THAT INDICATES THE USE OF**  
6 **MULTIPLE CONTRACTORS TO MAKE A REPAIR CONSTITUTES A**  
7 **CAPITAL EXPENDITURE?**

8 A. No. The number of contractors Tega Cay uses to make a routine repair to  
9 a water or sewer line is not relevant to the classification of the expense as  
10 capitalized plant. During ORS's review of invoices, it was evident that Tega Cay  
11 classified the same types of routine repairs contained in Surrebuttal Exhibit WJM-  
12 1 as operating expenses which indicates the coding of purchase orders by Tega  
13 Cay employees is inconsistent. Many of the invoices contained in Surrebuttal  
14 Exhibit WJM-1 include restoration of asphalt or concrete which are associated  
15 with a routine repair and should not be classified as a capital project. These  
16 expenses are no different than the restoration work of backfilling, tamping,  
17 raking, placement of straw, seed or sod identified as an operating expense by Mr.  
18 Flynn in his rebuttal testimony page 7, lines 17 through 19.

19 **Q. WHY DID ORS EXCLUDE INVOICE 7703 FOR TNT, INC. FOR**  
20 **\$27,725.00?**

21 A. ORS excluded invoice 7703 dated 05/23/2011 for vendor TNT, Inc.  
22 because the invoice did not identify the specific location or type of service

1 provided by the vendor. ORS was unable to determine whether the service  
2 provided by TNT, Inc. was used and useful to provide service to Tega Cay  
3 customers. See Surrebuttal Exhibit WJM-1, page 361 for a copy of the invoice.  
4 As of the date of this surrebuttal testimony, ORS has been unable to verify that  
5 the additional information provided by Mr. Flynn is accurate or if the expense  
6 incurred by Tega Cay was used and useful to provide service to customers.

7 **Q. WHY DID ORS EXCLUDE INVOICES RELATED TO THE**  
8 **DEVELOPMENT OF A DHEC CORRECTIVE ACTION PLAN?**

9 A. ORS acknowledges "...that engineering services were an integral  
10 component of..."<sup>3</sup> Tega Cay's corrective action plan. However, ORS believes  
11 that the ratepayer should not pay fines and penalties as stated in my direct  
12 testimony. The Corrective Action Plan is a DHEC penalty for non-compliance.  
13 If Tega Cay had maintained the wastewater system and responded to mitigate  
14 issues in a timely manner, DHEC likely would not have levied a penalty of a  
15 Corrective Action Plan. ORS removed \$74,959 in WK Dickson invoices which  
16 were identified by the invoices as engineering costs associated with compiling the  
17 information required by DHEC for the Corrective Action Plan – which is a  
18 penalty. The copies of invoices ORS removed are contained in Surrebuttal  
19 Exhibit WJM-1, pages 352 through 360. ORS allowed invoices for engineering  
20 costs related to actually making the improvements required by the Corrective  
21 Action Plan.

---

<sup>3</sup> 2012-177-WS Rebuttal Testimony Mr. Patrick Flynn, page 8 lines 9-10.

1 **Q. HOW DID YOU CONCLUDE THAT TEGA CAY WAS OUT OF**  
2 **COMPLIANCE WITH THE COMMISSION REGULATIONS**  
3 **REGARDING ITS BILL FORM?**

4 A. 26 S.C. Code Ann. Regs. 103-512.4.A.14 and 103-712.4.A.14 requires the  
5 application for a rate increase contain a copy of a customer bill form. The bill  
6 form included with Tega Cay's application did not contain a second page, reverse  
7 side, Tega Cay's rate schedule, or a statement that the applicable rate schedule is  
8 available upon request of the customer. Also, ORS requested copies of customer  
9 bills throughout the audit process for this rate case. None of the customer bills  
10 provided by Tega Cay have contained a second page, reverse side, the rate  
11 schedule or a statement that the applicable rate schedule is available upon  
12 customer request. Exhibit KLS-1 attached to the Rebuttal Testimony of Ms.  
13 Karen Sasic is the first time ORS has seen the reverse side of a Tega Cay  
14 customer bill containing the required reference to the rate schedule.

15 **Q. EXPLAIN ORS'S TREATMENT OF PURCHASED WATER BY TEGA**  
16 **CAY.**

17 A. Unlike other Utilities, Inc.'s subsidiaries operating in South Carolina,  
18 Tega Cay purchases all of its water from York County. Under this arrangement,  
19 Tega Cay pays York County on a monthly basis for the aggregate volume of  
20 water used by customers as measured by the water meters located at each  
21 customers premise. Tega Cay also pays York County a monthly meter fee for  
22 water service delivered through the master meter in conformance with York's



1 water and sewer rate schedule currently in effect. York County's rates are applied  
2 to Tega Cay's customer consumption amount. Because Tega Cay is the only  
3 entity involved in obtaining the meter reading information from its customers  
4 located only in the Tega Cay subdivision, there should not be an issue "due to  
5 timing differences..."<sup>4</sup> If Tega Cay has "over-collected" any amount from its  
6 customers, then it should properly return this money to the customer(s). For the  
7 test year, Tega Cay chose to retain the \$2,508 amount it over-collected. ORS's  
8 position is to subtract the over-collection as documented in ORS adjustment No. 5  
9 which will return the over-collected funds to the customers.

10 **Q. DOES THAT CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

11 **A. Yes.**

---

<sup>4</sup> 2012-177-WS Rebuttal Testimony Ms. Kirsten Markwell, page 2 line 27.